



**Property and Casualty -
Auto Bulletins**

Pension Bulletins

**Monitoring and
Enforcement Bulletins**

**Licensing Changes
Bulletins**

Bulletins by Sector

Bulletin

No. A-01/03

Property & Casualty

– Auto

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Technical Notes for Automobile Insurance Rate and Risk Classification Filings

To the attention of all insurance companies licensed

to transact automobile insurance in Ontario

The Financial Services Commission of Ontario (FSCO) is releasing updated Technical Notes to assist insurers in preparing rate filings and to provide criteria for filing under the Respond to Market (R2M) process for 2003.

Background

Technical Notes are considered to be part of the application (filing) for approval and authorization of rates and risk classification systems under the *Insurance Act*. FSCO last released Technical Notes to insurers in December 2001 with Bulletin No. A-12/01. Changes made to the Technical Notes from the last version are denoted by a side bar (I).

Benchmark assumptions have been provided to assist insurers in preparing filings. These benchmark assumptions are based on a review of commonly used assumptions by insurers in filings as well as based on FSCO's own actuarial analysis.

Summary Points

Here are some key points to take note of when preparing rate filings:

Loss development - insurers must provide Ontario loss development data for the applicable category of automobile insurance.

Premium trend - insurers need to consider the rate level impact of the rate group tables when determining their premium trend. The IBC will publish the estimated rate group drift of the CLEAR rate group tables by coverage, but insurers should take into consideration their own premium distribution by coverage when estimating the premium trend.

Tax rates - have been reduced in Ontario. Please refer to the Technical Notes for the effective rates in 2003 and 2004.

To assist insurers, we have also included a "Rate Filing Checklist for Major Filings" that insurers can use at their discretion. Using this checklist may help ensure that the filing being submitted contains all the necessary information and the filing being deemed complete upon receipt by FSCO.

R2M Filings

These Technical Notes reflect the updated criteria for the R2M process that were communicated in a letter dated January 13, 2003, to chief executive officers of insurers. For your assistance, an example of a filing that qualifies for the R2M process is included in the Technical Notes.

Filing Process

Insurers are encouraged to engage in open dialogue with staff from the Automobile Insurance Division on filings or potential filings. Full understanding of issues is important in timely review and approval of filings. In calendar year 2002, the average approval time for complete filings for private passenger automobile insurance was 33 days. This includes filings submitted under the R2M process where the average approval time was 11 days, and major filings where the average approval time was 42 days.

FSCO's web based electronic filing system for automobile insurance filings called "ARCTICS" is currently in final testing stages. You will hear more about this system soon, as we move closer to full implementation. We expect that

the system will be beneficial for both insurers and FSCO by improving efficiency, communication and consistency.

Contact

Should you have any inquiries regarding this Bulletin, please contact your rate analyst in the Automobile Insurance Division at FSCO. Please note that this bulletin and the Technical Notes are posted on FSCO's website at: www.fSCO.gov.on.ca

Bryan P. Davies

Chief Executive Officer and

Superintendent of Financial Services

January 31, 2003

Attachments (PDF):

- [Technical Notes for Automobile Insurance Rate and Risk Classification Filings](#)
- [Criteria for Respond to Market Filings](#)
- [Summary of Information](#)
- [Benchmark Assumptions for Private Passenger Automobile Insurance Filings for Reference Purposes](#)
- [Section 413 - Major and Minor Filings](#)
- [Rate Filing Checklist for Major Filings](#)



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*Technical Notes
for
Automobile Insurance Rate
and Risk Classification Filings*

*Issued with:
Financial Services Commission of Ontario Bulletin No. A-01/03
Property & Casualty - Auto*

Technical Notes for Automobile Insurance Rate and Risk Classification Filings

A. Introduction

All insurers writing non-fleet automobile insurance on Ontario Automobile Policy (OAP) 1 or OAP 2 must have their rates and risk classification systems approved or authorized by the Financial Services Commission of Ontario (FSCO). The *Technical Notes* are for assisting insurers in preparing their filings. Changes from the previous *Technical Notes* are highlighted with a sidebar (|). Also, **bolded and underlined** sections of the *Technical Notes* should be viewed as critical issues that insurers should adhere to when submitting filings.

There are five different *Filing Guidelines* depending upon the types of changes proposed:

1. *Section 410 Filing Guidelines - Expedited*: to be used when the company is filing for changes to private passenger automobile insurance rates or risk classification systems and the changes proposed meet the criteria as set out in Regulation 664. Where rates for other categories of automobile insurance are dependent on the private passenger automobile rates (e.g., motorhome rates are dependent on private passenger rates), they should be included within the expedited filing.
2. *Section 410 Filing Guidelines - Respond To Market (R2M)*: to be used when the company is filing for changes to private passenger automobile insurance rates or risk classification systems and the changes proposed meet the criteria as set out in Exhibit 1 of the *Technical Notes*. Where rates for other categories of automobile insurance are dependent on the private passenger automobile rates (e.g., motorhome rates are dependent on private passenger rates), they should be included within the R2M filing.
3. *Section 410 Filing Guidelines - Major*: to be used when a company is initially entering the private passenger automobile insurance market, or is changing existing automobile insurance rates but the changes proposed do not meet the criteria for the R2M process. Where rates for other categories of automobile insurance are dependent on the private passenger automobile rates (e.g., motorhome rates are dependent on private passenger rates), they should be included within the filing.
4. *Section 413 Filing Guidelines - Major*: to be used when a company is initially entering the insurance market for a category other than private passenger automobile insurance or when changes proposed meet the criteria set out in Exhibit 4 of the *Technical Notes* or when requested by FSCO to use it. Where rates for other categories of automobile insurance are dependent on the rates of a Section 413 category (e.g. public vehicle rates are dependent on commercial vehicle rates), they should be included within the filing.
5. *Section 413 Filing Guidelines - Minor*: to be used when the company is filing for changes to automobile insurance rates or risk classification systems for other than the private passenger (e.g. company is filing for motorcycle rates). Where rates for other categories of automobile insurance are dependent on the rates of a Section 413 category (e.g., public vehicle rates are dependent on commercial vehicles rates), they should be included within the filing.

When proposing rate or risk classification changes, insurers should also have regard to Superintendent's bulletins that may be issued from time to time. Bulletins are listed on FSCO's website at: www.fSCO.gov.on.ca.

B. Requirement to File

The requirement to file rate and risk classification changes includes the following:

1. where an insurer is proposing to use Insurers' Advisory Organization (IAO) advisory rates;
2. where an insurer is updating vehicle rate groups and off-balancing the changes. If changes are not off-balanced, updated vehicle rate group tables and updated risk profiles still need to be filed with FSCO;
3. where an insurer is updating vehicle rate groups and using other than standard Vehicle Information Centre (VIC) differentials; or
4. where an insurer is changing rates for categories of automobile insurance that are dependent on another category of automobile insurance (e.g., public vehicle rates that are dependent on commercial vehicle rates).

If an insurer uses rates or risk classification systems that are not approved or authorized by the Superintendent, it may be prosecuted under the *Insurance Act* (the "Act").

C. Filing Documentation

In general, documentation should be in sufficient detail to enable the reviewer to trace the resulting rates from the raw data experience and other supporting data. If market analysis information is used by the insurer in developing the proposed changes, this information must be provided within the filing. For more specific details please refer to the appropriate *Filing Guidelines*. **Failure to provide documentation, as outlined in the *Filing Guidelines*, will result in the filing being deemed incomplete.**

D. Reviewing Rate Adequacy

Insurers should regularly review the adequacy of rates for **all** categories of automobile insurance so that consumers are less likely to experience large rate changes.

The Act requires that all risk classification systems be just and reasonable, reasonably predictive of risk, and distinguish fairly between risks. Also, under the Act, rates must be just and reasonable, not impair the solvency of the insurer, and not be excessive in relation to the financial circumstances of the insurer.

E. Major Filings

Outlined below are specific components to take into consideration when preparing your rate filing where full rate level indications are required.

1. Loss Data

- a. The insurer's own current direct (i.e., prior to reinsurance transactions) loss data should be provided, otherwise the filing will be deemed incomplete.
- b. The insurer's own loss data should be used to the extent that it is credible.
- c. Loss data must be Ontario specific for the filed category of insurance at the coverage level. Valuation data for loss reserving purposes may not satisfy this requirement.
- d. Data at the major sub-coverage level is generally required for estimating ultimate costs. Aggregation will be required to estimate the required change in premiums.

Loss experience should be subdivided into homogenous groups at the major sub-coverage level as follows:

TPL - bodily injury
TPL - property damage
TPL - Direct compensation - property damage

AB - medical
AB - rehabilitation - renovation
AB - rehabilitation - other
AB - caregiver
AB - income replacement
AB - attendant care
AB - funeral and death
AB - other

Uninsured automobile

Collision

Comprehensive

All perils

Specified perils

Underinsured motorist (OPCF 44R)

- e. For each coverage and major sub-coverage listed above, payment patterns should be developed for discounting purposes.
- f. The filing should use the most recent ratemaking data that is available. Should the filing rely on industry experience, we would expect any filing received after industry data is released, to include the most recent industry data (**i.e., assuming that industry data for the 2002 accident year is released on May 1, 2003, any filing received by FSCO after that date should include 2002 accident year data**). Accident half-year loss development data on an industry-wide basis is generally available in early November.
- g. **Company automobile experience under the Superintendent's Automobile Statistical Plan (ASP) is generally considered to be appropriate for ratemaking purposes. Companies that rely on alternative data sources should be able to reconcile closely with the AIX loss ratio and loss development company data reported under the ASP. Such companies may be required to provide a copy of the AIX data to demonstrate that the ratemaking data is reasonably accurate to support rate changes. If the data does not reconcile closely to the AIX, explanations will be required to be provided to FSCO. This may delay the filing review process.**

2. Indicated Rate Changes and Proposed Rate Changes

- a. The indicated rate change should be based on at least three consecutive years of actual experience.

- b. Proposed rate changes should be in the same direction as the indicated rate change direction at the coverage level. For example, if the indicated rate change for TPL-BI is positive and the indicated rate change for AB is negative, we expect that the proposed rates for TPL-BI should increase and the proposed rates for AB should decrease, even though both TPL and AB are compulsory coverages.
- c. Significant differences at the coverage level between the indicated and proposed rate changes should be explained.
- d. The data included in the experience period should be readily reconcilable with information provided in Appendix A of the *Filing Guidelines*.
- e. It should be readily apparent how the investment income assumptions have been reflected in the calculation of the indicated rate change.
- f. Both indicated and proposed rate changes should take into consideration the changes to coverages resulting from the Bill 59 product.
- g. Rationale and other considerations in support of the proposed rate changes should be provided.
- h. **Insurers should regularly review their indicated rate levels and current rate levels for all categories of automobile insurance.**

3. Credibility

- a. Credibility standards and the complement of credibility should be consistent from one filing to the next. Changes in either the standards or the complement of credibility must be outlined and justified.
- b. Credibility standards should also be reasonable in the circumstances. The purpose of credibility weighting is to provide a balance between stability and responsiveness of an estimate. Standards that are too low may cause significant instability in the indicated rates. Those that are too high may reduce responsiveness of a rate change.
- c. A commonly used standard of 1,082 claims for short tail, low severity coverages, such as property damage and physical damage, is considered reasonable. The use of a higher standard in long-tail, high severity coverages in the form of a multiplier of the base standard, is considered reasonable.
- d. **Due to the nature of Bodily Injury claims, the BI claim count should not be combined with the PD claim count to arrive at a rate level indication for TPL, while treating the TPL coverage experience as 100% credible.**

4. Loss Development

- a. **The insurer must provide its own company Ontario loss development data for the filed category. Canada-wide loss development data that is not specific for the Ontario filed category and coverages is not appropriate.**
- b. The insurer should not solely use industry factors, unless the insurer can support why those factors are more appropriate than basing loss development on its own data.
- c. If loss development for a partial accident year is used, then comparable experience at the same level of maturity should be provided to support the selected loss development factors.

5. Bill 59 Adjustments

- a. The filing should clearly indicate how loss experience has been adjusted to reflect the Bill 59 product.

6. Loss Trend

- a. Loss trends are usually based on industry-wide experience. Loss trends based on the company's own experience may also be useful in better understanding the dynamics of the company's business.
- b. Selected loss trend assumptions should be supported with an analysis of the indicated loss cost changes using an appropriate loss trend methodology. Loss trend assumptions that do not follow the indicated loss trends should be rationalised and explained.
- c. Prospective loss trends should reflect the expected changes in loss costs in the future period. To assist insurers, ranges of future loss trend factors are in Exhibit 3. These ranges of future loss trend factors are the result of FSCO's loss trend analysis based on the recent industry data as well as a review of assumptions used in recent rate filings and are provided for reference purposes only.
- d. Loss cost trends are generally sufficient. However, frequency and severity trends are often reviewed and analysed separately in the selection of trend factors.

7. Treatment of Large Losses

- a. The filing should clearly indicate how large losses in the experience period have been handled. If losses have been capped, a description of the large loss procedure and the effects of the caps must be demonstrated.
- b. A long period should be used in estimating the large loss provision to minimize statistical variations over years.
- c. Each company should ensure that large losses do not cause significant instability in the company's rates from one period to the next.

8. Catastrophe Provision

- a. A catastrophe procedure is used to remove aberrations in the underlying loss data caused by infrequently occurring, multi-claim, weather-related events.
- b. In the past we have considered a 2% loading on comprehensive coverage, the comprehensive portion of all perils coverage, and specified perils coverage, as a reasonable catastrophe provision.

9. Rate Group Drift

- a. The gradual shift in the distribution of business to newer and more expensive cars results in increases in physical damage premiums. This should be explicitly reflected in deriving rate level indications. Otherwise, rate indications for direct compensation - property damage and physical damage coverages will be overstated.
- b. We have accepted 2% as a reasonable premium trend factor in the past up to year 2000 under the Canadian Loss Experience Automobile Rating (CLEAR).

- c. From year 2000 and onwards, the rate group drift factors have increased substantially for the physical damage coverages due to the new CLEAR methodology. **The annual industry average change in rate group differentials are determined and published by the Vehicle Information Centre (VIC) of the Insurance Bureau of Canada (IBC). Insurers are still required to provide their rate group distribution to support the selected rate group drift.**

10. On-Level Premium

- a. All premiums by coverage and territory used in the filing should be adjusted for previous rate changes.
- b. **If the extension of exposures method is used for determining the on-level premium, documentation must be provided to demonstrate how it compares to the parallelogram method.**

11. Investment Return, Premium to Equity Ratios and Return on Equity

- a. The rationale for assumptions should be made based on the current economic environment.
- b. While expected investment returns should reflect new money rates, we anticipate that the expected investment return will be close to the actual investment return the insurer earned within the recent past. Significant differences must be explained and justified.
- c. A premium to equity ratio of 2:1 is fairly standard on a combined coverage basis. Some insurers may decide to obtain leverage ratios at the coverage level. In our view, the premium-to-equity ratios that were established in 1988, at the time of the Ontario Automobile Insurance Board, reflect industry-wide averages that existed at that time under a tort product and may not be appropriate under the current product or for individual companies.
- d. The return on equity underlying the indicated rate level should reflect the current economic environment as well as the company's leverage ratio.
- e. FSCO is unlikely to approve any filing that proposes a rate change that results in a negative return on equity.

12. Expenses

- a. Some general expenses may vary as a function of premiums or exposures, while others, such as salaries and rent, may follow inflation or other economic conditions.
- b. A reasonable approach is to treat commissions and premium taxes as premium variable expenses and treat all other expenses as fixed expenses. Some companies may, through additional analysis, use a three-way split, which we have also found to be reasonable. Fixed expenses should normally be allocated to compulsory coverages.
- c. FSCO is unlikely to approve any filing that will pass through to consumers an expense provision, excluding unallocated loss adjustment expenses (ULAE) and excluding allocated loss adjustment expenses (ALAE), that exceeds the expense provision set out in Exhibit 3.
- d. It is FSCO's stated position that any profit or loss effects from the residual market cannot be included as an element of general expenses. This is explained in the *Filing Guidelines*.

- e. There should be no expense provision established in respect of the Facility Association Residual Market, unless there is a known subsidy in its operation. Risk Sharing Pool should be treated as direct business and therefore should be reflected in the direct loss and premium data.

13. Territorial, Class, Driving Record and Other Differential Changes

- a. In order to ensure rate equity and minimize rate dislocation, insurers should cap differential changes at +/- 10% from the current differential in the direction of the coverage indication.
- b. Overall dislocation should be carefully reviewed by insurers and capping implemented, as necessary.

14. Introduction of New Discounts/Surcharges or Differentials

- a. Insurers may have innovations in pricing auto insurance through the introduction of new discounts/surcharges and differentials. Data should be provided in support of a new discount/surcharge or differential. FSCO will consider non Ontario data, provided it is credible and relevant to the current Ontario product.
- b. If an insurer is proposing to adopt a discount/surcharge or differential that is in use by other auto insurers in Ontario, it must provide the supporting information, i.e., the names of the insurers and the level of the discount/surcharge or differential, within the filing.
- c. Insurers must collect data and, once sufficient data has been gathered, be prepared to amend the discount/surcharge or differentials accordingly.

15. Vehicle Rate Group Changes

- a. A filing must be provided where an insurer is changing vehicle rate group differentials or where an insurer is updating vehicle rate groups and using other than standard VIC differentials.
- b. For most vehicles, companies may be able to adopt the CLEAR rate groups. However, as a result of CLEAR, some vehicles will face a significant increase in premium. We expect companies to manage the dislocation for these vehicles by applying capping procedures and to "phase-in" the rate groups over a period of time.

From previous filings, we have seen capping at the rate group level to be the most efficient procedure during the transition period. For example, capping at the rate group level takes the company's current differential for the vehicle, applies the cap and maps the capped differential to the CLEAR differential. The corresponding CLEAR rate group is then assigned based on the mapped CLEAR differential. FSCO has considered a 35% cap at the rate group level to be acceptable. It is up to each insurer to decide which capping procedure best suits the insurer's needs. Capping procedures must be described.
- c. Insurers must ensure that the most current vehicle rate group table for the company has been filed with FSCO and updated risk profiles provided, where applicable.

16. Tax Rates

Insurers should reflect the tax rates expected to be effective for the period of the proposed rates. Tax reform measures that result in reduced corporate tax rates should be explicitly reflected in the rate level calculations. **Refer to Exhibit 3 for the projected corporate tax rates in Ontario.**

17. Territorial Definition Changes

If insurers are proposing to make territorial definition changes, the insurer must demonstrate that all conditions of the current Bulletin regarding territories are met. For example, maps outlining the current and proposed territories and exposure distributions must be provided.

F. Respond To Market (R2M) Filings

An insurer may submit a private passenger automobile insurance filing under the R2M process where the insurer meets the criteria set out in Exhibit 1 of the *Technical Notes*. It is expected that the values for the criteria will be updated annually. These criteria include:

1. the average cumulative rate change for all coverages fall within the established range;
2. individual risk rate level changes must be within the established range; and
3. the return on equity underlying the proposed rates is within the established range.

Attached as Exhibit 2 is an example of how to determine the cumulative rate change for qualifying under the R2M filing process. The attached relevant pages (A1 - A5) are from Appendix A of the company's rate filing.

The insurer estimates a return on equity of 12% underlying its proposed rate level, based on the insurer's response to Question 6c of the Appendix A of the filing. This Return on Equity falls within the R2M criteria range.

All individual risk rate level changes are within the range of 2.5% to 18.5%, based on the insurer's response to Question 6d and 6e of the Appendix A of the filing. These rate changes fall within the R2M criteria range between -20% and +20%.

The proposed effective date for renewal policies of the rate change is September 1, 2003, as shown in the response to Question 2. The insurer is proposing to increase its rates by 1.9% (i.e. the *All Coverages Combined Proposed Rate Level Change*) as shown in the response to Question 4.

The average cumulative rate change for all coverages is shown in 5b. It is calculated by:

1. taking the *All Coverages Combined Proposed Rate Level Change* from the response to Question 4;
2. taking each *All Coverages Combined Rate Level Change* that occurred on or after January 1 of the year up to the proposed renewal effective date from the responses to Question 5a; and
3. using the formula from the *Filing Guidelines*:
$$\left[\prod_{\text{all } i, d} (1 + i) (1 - d) \right] - 1$$

where *i* = proposed rate level increase or approved rate level increase(s) that occurred on or after January 1 of the year in which the proposed rate change is expected to be effective for renewal business; and

d = the proposed rate level decrease or approved rate level decrease(s) that occurred on or after January 1 of the year in which the proposed rate change is expected to be effective for renewal business.

In this example:

1. the *All Coverages Combined Proposed Rate Level Change* from the response to Question 4 is 1.9%;
2. the insurer is proposing the rates to be effective as of September 1, 2003, from the response to Question 2. The rate change during the period January 1, 2003 to September 1, 2003, from the response to Question 5a is 3.0%; and
3. the *Average Cumulative Rate Change* for all coverages is 5.0%, as shown in the response to Question 5b. It is calculated as follows:

$$\text{average cumulative rate change} = [(1+.019) \times (1+.030)] - 1 = 0.05 = 5.0\%$$

In this example, the insurer has met all conditions for the R2M approval process. The average cumulative rate change for all coverages is 5.0% and the other changes proposed in the filing comply with the criteria for the R2M approval process.

G. Rate Filing Checklist for Major Filings

In order to further assist companies when preparing their filings, attached as Exhibit 5, is a checklist that companies can use prior to submission of a Major filing. By using this checklist, it may ensure that the filing is complete and the documents required in the filing are included. Electronic copies of the Rate Filing Checklist may be obtained by contacting your Rate Analyst in the Rates and Classifications Unit.

CRITERIA FOR RESPOND TO MARKET FILINGS

The following criteria must be met for an insurer to be able to use the Respond to Market (R2M) filing process. Please note that this information is updated annually so please ensure you have the most current criteria.

1. The Average Cumulative Rate Change must be between **-5.0%** and **+5.0%** inclusive. The Average Cumulative Rate Change is calculated in accordance with the instructions in Section 2 of the *R2M Filing Guidelines* and is to be provided in response to Question 5b of Appendix A to the *Filing Guidelines*.
2. The Return on Equity that underlies the proposed rate level change must be between 0% and 12% inclusive. The proposed Return on Equity is to be provided in response to Question 6c of Appendix A of the *R2M Filing Guidelines*. The Return on Equity assumption will be reviewed by FSCO to determine appropriate methodology, level and usage.
3. The individual risk rate level change, taking into consideration any previous rate changes effective on or after January 1 of this year and excluding the introduction and phase-in impact of the CLEAR system, must be between +20% and -20% inclusive. The individual risk is one that may carry compulsory coverages and any physical damage coverages. The individual risk rate level change is to be provided in response to Questions 6d and 6e of Appendix A of the *R2M Filing Guidelines*.
4. Insurers must have had a Major filing with rate level indications approved with effective dates either in the current or previous calendar year.
5. The proposed renewal effective date for the R2M filing must be at least 3 months from the renewal effective date of the previous approved private passenger automobile filing.
6. Insurers may not propose the introduction of risk classification elements (includes discounts/surcharges, rating variables and their definitions) unless such elements are demonstrated to be in use by and identical to elements used by another automobile insurer in Ontario. A copy of the risk classification element that is in use by the other Ontario insurer must be included in the filing.
7. Insurers cannot use the R2M process if the insurer does not have current private passenger automobile insurance rates (i.e., is new to the Ontario market).
8. The R2M filing process does not apply to the Facility Association.

Company Name: "A" Insurance Company

Group Name: "ABC" Group

Category of Insurance: Personal Vehicles - Private Passenger Automobiles

SUMMARY OF INFORMATION

1. Check all the items that apply to this filing:

- | | | |
|-------------------------------------|----|---|
| ☐ | 1. | Base rate change, not due to off-balancing differential or discount changes, that is uniform by territory. |
| ☒ | 2. | Base rate change, not due to off-balancing differential or discount changes, that is not uniform by territory. |
| ☐ | 3. | Change to classification, limit of liability, deductible or other rate differentials. |
| ☐ | 4. | Change to rating rules. |
| ☐ | 5. | Changes to the amount of, or adding or deleting, discounts or surcharges. |
| ☐ | 6. | Algorithm change. |
| ☐ | 7. | Other (specify). |
-

2. Proposed effective date for **new** policies: July 1, 2003

Proposed effective date for **renewal** policies: September 1, 2003

(Insurers should take into consideration the 45 day notice period to brokers and 30 day notice period to insureds required under section 236 of the Act in determining effective dates)

3. Indicate the distribution of risks by policy term:

3 month	0	%
6 month	20	%
12 month	80	%
Other	<u>0</u>	%
Total	<u>100</u>	%

Exhibit 2.1

4. Please state the proposed rate level changes and premium weights using direct written premiums that have been adjusted to current rate level. If direct written premiums are not available, please use direct earned premiums.

Please indicate whether the changes by coverage are weighted by written or earned premiums by placing an "x" in the appropriate box, and state the source and date of data.

☒ **direct written premium** ☐ **direct earned premium**

Source and date of data: 2002 direct written premium at current rate level

<u>Coverage</u>	<u>Proposed Rate Level Change</u>	<u>Weights</u>
Liability - Bodily Injury	9.5%	23.3%
Liability - Property Damage	9.5%	1.5%
Accident Benefits	7.5%	22.8%
Uninsured Automobile	7.5%	2.8%
Direct Compensation - Property Damage	-5.0%	16.8%
All Compulsory Coverages	5.1%	67.2%
Specified Perils	0.0%	0.0%
Comprehensive	-5.0%	10.1%
Collision or Upset	-5.0%	11.2%
All Perils	-5.0%	8.9%
OPCF 44R	0.0%	2.6%
All Optional Coverages	-4.6%	32.8%
All Coverages Combined	1.9%	100.0%

Exhibit 2.2

- 5a. State the dates and percentage changes for the last four rate level changes within the past 18 months:

Effective Date for Renewal Business	March 1/03	Dec 1/02	May 1/02	July 1/01
<u>Coverage</u>	<u>Prior Change</u>	<u>2nd Prior Change</u>	<u>3rd Prior Change</u>	<u>4th Prior Change</u>
Liability - Bodily Injury	14.0%	15.0%	20.0%	-4.0%
Liability - Property Damage	14.0%	15.0%	20.0%	-4.0%
Accident Benefits	10.5%	10.0%	14.0%	2.1%
Uninsured Automobile	10.5%	10.0%	14.0%	2.1%
Direct Compensation - Property Damage	-8.0%	0.0%	0.0%	6.2%
All Compulsory Coverages	7.2%	9.3%	12.7%	1.4%
Specified Perils	0.0%	0.0%	0.0%	0.0%
Comprehensive	-6.5%	-5.0%	-5.0%	0.0%
Collision or Upset	-6.0%	-5.0%	-5.0%	10.5%
All Perils	-6.0%	-5.0%	-5.0%	5.5%
OPCF 44	0.0%	0.0%	0.0%	0.0%
All Optional Coverages	-5.7%	-0.9%	-4.6%	5.7%
All Coverages Combined	3.0%	6.0%	7.0%	2.8%

- 5b. State the *Average Cumulative Rate Change* for all coverages. It is based on the *All Coverages Combined Proposed Rate Level Change* (as stated in the response to Question 4) and the *All Coverages Combined Rate Level Change(s)* (as stated in the response to Question 5a), that occurred on or after January 1 of the year in which the proposed rate change is expected to be effective for renewal business.

The *Average Cumulative Rate Change* for all coverages is: 5.00 %.

Exhibit 2.3

- 6a. Provide the direct written premium, the direct earned premium, the number of earned vehicles, and incurred losses for the most recent **complete** accident year for this category of insurance.

		Direct Written Premium	Direct Earned Premium	Incurred Losses	Number of Earned Vehicles
<u>Coverage</u>	<u>Year</u>	2002	2002	2002	2002
		000's	000's	000's	
Liability - Bodily Injury		\$ 28,492	\$22,163	\$15,558	138,250
Liability - Property Damage		\$1,834	\$1,367	\$725	138,250
Accident Benefits		\$27,881	\$31,689	\$23,688	138,250
Uninsured Automobile		\$3,424	\$1,390	\$1,039	138,250
Direct Compensation - Property Damage		\$20,544	\$21,041	\$15,023	138,250
All Compulsory Coverages		\$82,175	\$77,650	\$56,033	
Specified Perils		\$0	\$26	\$16	460
Comprehensive		\$12,351	\$13,721	\$8,274	110,146
Collision or Upset		\$13,696	\$18,356	\$14,143	95,717
All Perils		\$ 10,883	\$5,756	\$4,088	19,015
OPCF 44R		\$3,179	\$1,579	\$667	123,301
All Optional Coverages		\$40,109	\$39,438	\$27,188	
All Coverages Combined		\$122,283	\$117,088	\$83,221	

Exhibit 2.4

- 6b. Provide the direct written premium, the direct earned premium, the number of earned vehicles, and incurred losses for the second most recent **complete** accident year for this category of insurance.

		Direct Written Premium	Direct Earned Premium	Incurred Losses	Number of Earned Vehicles
<u>Coverage</u>	<u>Year</u>	2001	2001	2001	2001
		000's	000's	000's	
Liability - Bodily Injury		\$19,231	\$18,866	\$18,677	133,550
Liability - Property Damage		\$1,202	\$1,212	\$907	133,550
Accident Benefits		\$35,124	\$35,545	\$20,794	133,550
Uninsured Automobile		\$1,469	\$1,491	\$872	133,550
Direct Compensation - Property Damage		\$21,902	\$21,267	\$16,269	133,550
All Compulsory Coverages		\$78,928	\$78,381	\$57,519	
Specified Perils		\$28	\$28	\$18	444
Comprehensive		\$12,981	\$12,773	\$6,846	106,401
Collision or Upset		\$19,787	\$19,668	\$11,860	92,463
All Perils		\$6,300	\$6,004	\$3,419	18,368
OPCF 44R		\$1,191	\$1,157	\$587	119,109
All Optional Coverages		\$40,287	\$39,630	\$22,730	
All Coverages Combined		\$119,215	\$118,011	\$80,249	

- 6.c. Provide the Return on Equity that underlies the proposed rate level change, for this category of insurance, for all coverages combined: 12.0 %

- 6.d. What is the maximum rate change that a risk with compulsory coverages and any physical damage coverages would receive, taking into consideration any previous rate changes effective on or after January 1 of this year and excluding the introduction and phase-in impact of the CLEAR system, if this rate filing was approved:
18.5 %

- 6.e. What is the minimum rate change that a risk with compulsory coverages and any physical damage coverages would receive, taking into consideration any previous rate changes effective on or after January 1 of this year and excluding the introduction and phase-in impact of the CLEAR system, if this rate filing was approved:
2.5 %

BENCHMARK ASSUMPTIONS FOR PRIVATE PASSENGER AUTOMOBILE INSURANCE FILINGS FOR REFERENCE PURPOSES

The following benchmark assumptions are being provided to assist insurers. Please note that this information is updated annually so ensure you have the most current benchmark assumptions.

The assumptions are:

1. Loss Trend

Prospective loss trends should reflect the expected changes in loss costs in the future period. Subject to the remarks below, the following ranges of prospective loss trends are generally considered to be reasonable by FSCO, based on IBC AIX private passenger insurance data as of June 30, 2002 and a review of recent filings. FSCO also considers whether the overall loss trend for all coverages combined lies within a reasonable range.

Coverage	Prospective Loss Trend Ranges (June 30, 2002)
Third Party Liability - Bodily Injury	6.8%-7.6%
Direct Compensation Property Damage	2.5%-4.1%
Accident Benefits	8.2%-12.2%
Collision	3.4%-4.0%
Comprehensive	0.4%-1.2%

It should be noted that the above loss trend ranges are provided for reference only. Companies are expected to support the selected loss trend factors with their own analysis.

2. Return on Equity

The return on equity underlying the indicated rate level should reflect the current economic environment as well as the company's leverage ratio. A 12% after-tax return on equity was established in the 1996 *Technical Notes* by FSCO as a reasonable target for most companies. Since then, interest rates have declined substantially. As a result, the return on equity assumption is under review by FSCO. The ROE assumption will be reviewed to determine appropriate methodology, level and usage.

3. Expense Provision

FSCO is unlikely to approve any filing that will pass through to consumers an expense provision that is significantly higher than the industry average. In 2001, the industry average expense, excluding loss adjustment expense, is 25.6% of earned premiums for the automobile insurance line in Ontario. FSCO reviews and considers the average expense loadings by the type of distribution channel.

4. Ontario Corporate Tax Rates

The projected Ontario corporate tax rates for 2003 and 2004 are 36.6% and 33.1%, respectively.

SECTION 413 - MAJOR AND MINOR FILINGS

A "major" filing for a particular category of automobile insurance, subject to Section 413, needs to be submitted where:

- the insurer's annual direct written premiums meet or exceed the level specified below; **AND** the Average Cumulative Rate Change for the filed category is 10% or more (the Average Cumulative Rate Change is calculated in accordance with the instructions in Section 2 of the *Filing Guidelines* and is to be provided in response to Question 5b of Appendix A);

or

- the insurer is filing for a category of automobile insurance that was not previously written by the insurer;

or

- the insurer is requested by FSCO to submit a major filing.

For major filings, full actuarial documentation must be provided. For minor filings, only summary information is required.

The annual direct written premium levels vary by category as follows:

<u>Categories</u>	<u>Level</u>
Personal Vehicles - Motorcycles	\$2,000,000
Personal Vehicles - Motorized Snow Vehicles	\$2,000,000
Personal Vehicles - Off-Road Vehicles	\$2,000,000
Personal Vehicles - Motorhomes	\$2,000,000
Personal Vehicles - Historic Vehicles	\$2,000,000
Commercial Vehicles	\$15,000,000
Public Vehicles - Taxis & Limousines	\$2,000,000

Notes:

- The insurer's annual direct written premiums for the **latest** complete calendar year should be used.
- Fleet premiums are to be excluded.

RATE FILING CHECKLIST FOR MAJOR FILINGS

- Notes:** (1) *The main focus of this checklist is to highlight the most common issues we have encountered in the past while reviewing filings and is not intended to be a comprehensive checklist. You should refer to the Filing Guidelines and Technical Notes for more details.*
- (2) *In general, the documentation should be in sufficient detail to enable the reviewer to trace the resulting rates from the raw data experience and other supporting data.*

Section 1. Table of Contents

- ☐ Is a table of contents included?
- ☐ Is each section of the filing labelled according to the guidelines and made reference to by page number?

Section 2. Summary of Information (Appendix A)

- ☐ Is a duly completed Summary of Information (Appendix A) provided?

Section 3. Certificates

- ☐ 3a. Is a Certificate of the Officer/Designate (Appendix B1) included?
- ☐ 3b. Is a Certificate of the Actuary (Appendix B2) included?

Section 4. Actuarial Support

- ☐ Are all pages labelled/numbered according to the guidelines?
- ☐ 4.a. Is an Overall Description of Ratemaking Methodology and Summary provided?
- ☐ 4.b. Losses
- ☐ Is the source of data identified?
 - ☐ If company data (exposure, premium, claims and losses) as reported to IBC was used in the rate filing, are there any data quality problems which significantly affect interpretation of the statistical plan experience?
 - ☐ If company data (exposure, premium, claims and losses) as reported to IBC was not used, does the ratemaking data reconcile closely with the data reported to IBC, and any differences explained?
 - ☐ Are all of the data reported on Appendix A, pages A4&A5 in respect of the two most recent accident years and reconciled against the ratemaking data, and any differences explained?
 - ☐ Are direct losses (prior to any reinsurance transactions) used?
- 4.b.1 Loss Development
- ☐ Are the company loss development triangles provided?
 - ☐ Is the rationale for the selected loss development factors provided?
- 4.b.2 Loss Trends
- ☐ Is the source of data identified?
 - ☐ Is the support and rationale for the selected loss trends provided?
- 4.b.3 Treatment of Large Losses

RATE FILING CHECKLIST FOR MAJOR FILINGS

- ☐ If any special treatment of large losses in the overall and/or territorial rate calculations are used, is a full description and rationale provided?
- 4.b.4 Catastrophe (or Excess Claim) Procedure
 - ☐ If an explicit catastrophe procedure is used, is a full description and rationale provided?
- 4.b.5 Other Adjustments
 - ☐ If any other adjustments are made to the loss data, is a full description and support provided?
- 4.c. Allocated Loss Adjustment Expenses (ALAE) - **if applicable**
 - ☐ Is the source of data identified?
 - ☐ If company data as reported to IBC was not used, does the ALAE data used reconcile closely with the data reported to IBC, and any differences explained?
 - ☐ Are direct ALAE amounts (prior to any reinsurance transactions) used?
 - 4.c.1 ALAE Development
 - ☐ Is the company ALAE development triangle provided?
 - ☐ Is the rationale for the selected ALAE development factors provided?
 - 4.c.2 ALAE Trends
 - ☐ Is the source of data identified?
 - ☐ Is the support and rationale for the selected ALAE trends provided?
 - 4.c.3 Catastrophe (or Excess Claim) Procedure
 - ☐ If an explicit catastrophe procedure is used, is a full description and rationale provided?
 - 4.c.4 Other Adjustments
 - ☐ If any other adjustments are made to the ALAE data, is a full description and support provided?
- 4.d. Unallocated Loss Adjustment Expenses (ULAE)
 - ☐ Is a complete description and all supporting data and exhibits included?
- 4.e. Premium
 - ☐ Is the source of data identified?
 - ☐ Are direct premium (prior to any reinsurance transactions) used?
 - 4.e.1 On-Level Adjustments
 - ☐ Is the approach described?
 - ☐ If the parallelogram method is used, are the calculations disclosed?
 - ☐ If the "extension of exposures" method is used, is a comparison with the "parallelogram method" provided and significant differences explained?
 - ☐ Is history of rate changes for each coverage for the prior five years provided?
 - 4.e.2 Premium Trend
 - ☐ Is the source of data underlying premium trend calculations identified?
 - ☐ If company exposure distributions by rate group are used, are the distributions at applicable time periods provided?

RATE FILING CHECKLIST FOR MAJOR FILINGS

- 4.e.3 Other Adjustments
☐ If any other adjustments are made to the premium, is a full description and support provided?
- 4.f. Other Expenses
☐ Is the allocation of the expenses between exposure variable (fixed) and premium variable (variable) provided?
☐ Is the most recent company expense experience provided?
- 4.g. Profit Provisions
☐ Is sufficient detail for the determination of the expected rate of return on policyholder supplied funds and equity funds provided?
☐ Is sufficient detail for the determination of the target and proposed profit margins provided?
☐ Are the pay-out patterns by coverage provided?
☐ Is an appropriate tax rate included?
- 4.h. Credibility
☐ Is the credibility standard and the partial credibility formula provided?
☐ If a credibility complement is used, is a description of the approach, data source and details of all necessary adjustments provided?
- 4.i. Other Adjustments
☐ If any other adjustments are made that will affect the expected premium or losses, is the effect quantified and their effects disclosed and supported?
- 4.j. Summary Rate Level Indications
☐ Have summary sheets showing how the data combines with the adjustments and provisions outlined in subsections (4.b.) to (4.i.) been provided?
☐ If experience weights are different from the previous major filing, are the changes disclosed, and the rationale provided?
- 4.k. Territorial Indication - *if applicable*
- 4.k.1 Indicated Differentials
☐ Is a detailed description of the approach provided?
☐ Is the source of data identified?
☐ Is a comparison of current, indicated and proposed territorial differentials provided?
☐ Is the premium distribution and exposure distribution by territory and by coverage provided?
- 4.k.2 Off-Balance
☐ If the proposed territorial changes are being off-balanced, is the data used in the process of calculating the off-balance and all calculations provided?
☐ If the proposed territorial changes are not off-balanced, are subsections (4.a.) - (4.j.) completed?
- 4.k.3 Definitions
☐ If changes to territorial definitions are being proposed, are maps showing current and proposed territorial boundaries included?

RATE FILING CHECKLIST FOR MAJOR FILINGS

4.l. Implementation of CLEAR System Differentials - *if applicable*

4.l.1 Overall Description for Implementing CLEAR

- ☐ Is the approach for implementing CLEAR described?
- ☐ If any capping procedures are used, are all details provided?
- ☐ Is a list of the capped vehicles provided?

4.l.2 Off-Balance

- ☐ If the proposed CLEAR changes are being off-balanced, is the data used in the process of calculating the off-balance and all calculations provided?
- ☐ If the proposed CLEAR changes are not off-balanced, are subsections (4.a.) - (4.j.) completed ?

4.m. Classification/Limit of Liability/Deductible or Other Rate Differential Indications - *if applicable*

4.m.1 Indicated Differentials

- ☐ Is a detailed description of the approach provided?
- ☐ Is the source of data identified?
- ☐ Is a comparison of current, indicated and proposed differentials provided and compliance to the 'rate equity and minimization of rate dislocation' requirement in the *Technical Notes* demonstrated?
- ☐ Is the premium distribution and exposure distribution by class etc., and by coverage provided?

4.m.2 Off-Balance

- ☐ If the proposed changes are being off-balanced, is the data used in the process of calculating the off-balance and all calculations provided?
- ☐ If the proposed changes are not off-balanced, are subsections (4.a.) - (4.j.) completed?

4.n. Rating Based on Group Membership - *if applicable*

4.n.1 Indicated Discounts or rates

- ☐ Is a detailed description of the approach provided?
- ☐ Is the source of data identified?
- ☐ Is a comparison of current, indicated and proposed discount provided and compliance to the 'rate equity and minimization of rate dislocation' requirement in the *Technical Notes* demonstrated?
- ☐ Is the premium distribution and exposure distribution provided?

4.n.2 Off-Balance

- ☐ If the proposed changes are being off-balanced, is the data used in the process of calculating the off-balance and all calculations provided?
- ☐ If the proposed changes are not off-balanced, are subsections (4.a.) - (4.j.) completed?

RATE FILING CHECKLIST FOR MAJOR FILINGS

Section 5. Discount/Surcharge Changes - *If applicable*

- ☐ Is a detailed description of the approach provided?
- ☐ Is the source of data identified?
- ☐ Has a comparison of the indicated, current and proposed discounts or surcharges been included?
- ☐ Has the written premium and the exposure distribution of the discounts and surcharges been included?
- ☐ Has the current and proposed distribution that determines the premium shift or a calculation of the estimated impact been included?

Section 6. Rating Rule Changes - *If applicable*

- 6.a. Rating Rule Changes for Classification Differentials
 - ☐ Is a description of the proposed changes provided?
 - ☐ Is a rationale for the proposed changes provided?
 - ☐ Are the rate level effects of the proposed changes provided?
 - ☐ Are calculations that validate the rate level effect of the proposed changes based on the expected distribution of business provided?
- 6.b. Rating Rule Changes for Discounts and Surcharges
 - ☐ Is a description of the proposed changes provided?
 - ☐ Is a rationale for the proposed changes provided?
 - ☐ Are the rate level effects of the proposed changes provided?

Section 7. Final Rates

- 7.a. ☐ Current and proposed algorithms included?
- 7.b. ☐ Current and proposed base rates included?
- 7.c. ☐ Current and proposed differentials included?
- 7.d. ☐ Current and proposed discounts and surcharges included?
- ☐ Have exhibits illustrating current and proposed rating algorithms, base rates, discounts/surcharge and differentials been included and clearly identified as current and proposed?
- 7.e. Calculation of Final Rates
 - ☐ Have exhibits been provided that clearly describe how the current manual territorial premium are transformed into proposed manual territorial base premiums through the application of the proposed rate change in combination with any off-balance?
- 7.f. Calculation of Rate Level Change
 - ☐ Have exhibits been provided that clearly describe how the rate level impact of the changes are determined for each coverage?
- 7.g. Dislocation and Capping - *if applicable*
 - ☐ Is a complete description of the capping procedures included?

RATE FILING CHECKLIST FOR MAJOR FILINGS

- ☐ Has a summary of the dislocation been provided?

Section 8. Section 413 Dependent Categories - *if applicable*

- ☐ Have calculations that validate the rate level effect of the proposed changes for the dependent categories been included?
- ☐ Has a copy of the rating rule that stipulates the linkage to category of automobile insurance been included?
- ☐ Has Section 10, risk profiles and risk criteria for the dependent categories been completed?

Section 9. Manual Pages Containing Revised Rates and Risk Classification System

- ☐ Have the manual rate pages and rules been included?

Section 10. Rating Examples (Appendix C)

- ☐ Have the risk profiles and risk criteria been completed and included?